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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022 SESSION

BAC 2684 – FINANCIAL STATEMENT ANALYSIS

(All Sections / Groups)

10 AUGUST 2022
9.00 am. – 12.00 pm.
(3 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 7 pages (excluding cover page) with 4 Questions only.
2. Answer **ALL** Questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

1. A variety of tools are available to help users analyze financial statements. Identify and describe four (4) categories of financial analysis tools.

(5 marks)

2. Serba Indah Bhd's year-end balance sheet and income statement shows the following:

Statement of Financial Position, December 31

	2021 (RM)	2020 (RM)	2019 (RM)
Cash	34,496	39,544	40,480
Accounts receivable (net)	99,120	69,375	54,120
Inventory	124,880	91,575	58,300
Prepaid expense	10,864	10,406	4,400
Property, plant & equipment	310,800	283,050	252,450
Total Assets	580,160	493,950	409,750
Accounts payable	144,368	83,528	54,175
Long-term notes payable	109,200	113,775	90,750
Common stock, RM 10.00 par value	182,000	180,375	178,750
Retained earnings	144,592	116,272	86,075
Total liabilities and equity	580,160	493,950	409,750

Statement of Profit or Loss, December 31

	2021 (RM)	2020 (RM)
Sales	753,200	588,300
Cost of goods sold	459,452	382,395
Other operating expense	233,576	148,718
Interest expense	12,432	13,653
Income tax	9,548	8,708
Total cost & expense	(715,008)	(553,474)
Net Income	38,192	34,826
Earnings per share	2.20	2.03

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Required

- i. Compare the long-term risk and capital structure position of the company at the end of 2021 and 2020 by computing the following ratios:
 - a) Net profit margin
(3 marks)
 - b) Total asset turnover
(3 marks)
 - c) Return on total assets
(3 marks)
 - d) Comment on these ratio results
(2 marks)
- ii. Refer to the financial statements of Serba Indah Bhd. The following additional information is provided below:

Market price of common stock, December 31, 2021	RM 16.00
Market price of common stock, December 31, 2020	RM 15.00
Cash dividend per share in 2021	RM 0.70
Cash dividend per share in 2020	RM 0.40

Evaluate the profitability of the company by computing the following ratios for 2021 and 2020

- a) Return on common stock-holders equity
(3 marks)
- b) Price earning ratio on December 31
(3 marks)
- c) Dividend Yield
(3 marks)

(Total 25 marks)

QUESTION 2

1. The accounting for long-term asset involves three (3) distinct activities (or processes). List and explain each of these three (3) activities (processes).
(3 marks)

Continued...

2. Lexis manufacturing Bhd built and equipped a manufacturing plant for the manufacturing of electrical components at a cost of RM 4,000,000. The company will be operational in Year 1. The company can use straight-line, double-declining-balance, or sum-of-the-years' digits depreciation for the new plant. The plant is estimated to have a useful life of 10 years with no salvage value and income tax of 25%. The company has projected its earning (before depreciation on the new plant and income tax) as follows:

	RM
Year 1	2,500,000
Year 2	3,000,000
Year 3	3,500,000
Year 4	4,000,000

Required

- a) Determine the depreciation expense for the manufacturing plant for each of the three methods of depreciation. (*Note: for the double-declining-balance and the sum-of-the-years' digit depreciation, you are only required to compute the depreciation expenses for four (4) years only*)
- b) Compute the net income after tax for each of these method for the four (4) years.
- c) Which of the 3 methods has the lowest tax rate in Year 1? Which method produces the highest net income for Year 1?

(10 marks)

(9 marks)

(3 marks)

(Total 25 marks)

QUESTION 3

PART A

1. Explain what the capital structure of a company is. What are the two main components that make up the capital structure of a company?
2. Explain what is meant by financial leverage. Identity two (2) reasons (conditions) when financial leverage is advantageous to the company (shareholders)

(3 marks)

(2 marks)

Continued...

3. The following is the statement of profit or loss of Maxwell Corporation Bhd.

	RM 2020	RM 2021
Sales	1,963,558	2,138,705
Cost of goods sold and operating expense	(1,767,952)	(1,918,415)
Operating profits	195,606	220,290
Interest expense	(26,190)	(25,012)
Pretax profits	169,416	195,278
Tax expense	(62,684)	(70,301)
Net Income	106,732	124,977

In addition, the following data is extracted from the financial statements:

	RM 2020	RM 2021
Net Operating Assets	1,403,982	1,431,199
Total Stockholders' Equity	801,966	926,945

Required

a) Determine the Net operating profit after tax (NOPAT) for year 2020 and 2021.

(4 marks)

b) Determine the Returns on Net Operating Assets (RNOA) for 2021.

(2 marks)

c) Determine the Returns on Common Stockholders Equity (ROCE) for 2021.

(2 marks)

d) If ROCE is greater than RNOA, what does it indicate? Explain your answer.

(1 mark)

Continued...

PART B

1. Explain the purpose underlying the reporting of diluted EPS.

(3 marks)

2. The following is extracted from the financial statements of Duta Consolidated Bhd.

Common Stock:	2,000,000 shares outstanding for the current year up to 31 December.
Preferred Stock:	1,000,000 shares outstanding for the current year up to 31 December
Convertible bonds:	RM 8,000,000 5% bonds sold at par, convertible to 300,000 shares of common stock
Employee's stock option scheme:	Option to purchase 200,000 shares at RM 40.00. This option has been outstanding for the entire year.
Net income for the year:	RM 3,000,000
Preferred dividends:	RM 100,000
Tax rate:	The current tax rate is 35%
Average market price of the company's common stock:	RM 50.00 for the year

Required

- a) Determine the basic EPS for Duta Consolidated Bhd.

(4 marks)

- b) Determine the diluted EPS for Duta Consolidated Bhd.

(4 marks)

(Total 25 marks)

QUESTION 4

1. Compare and contrast the purpose of the **Income statement** with that of **Cash Flow from Operations**.

(5 marks)

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2. The Income Statement and the comparative Balance Sheet of Duplex Manufacturing Bhd is as follows:

Duplex Manufacturing Bhd
Statement of Profit or Loss
For the Year Ended December 31,2021

	RM
Sales	320,000
Less: Cost of Sales	(200,000)
Gross margin	120,000
Less: Operating expenses	(88,000)
Net Income	32,000

Duplex Manufacturing Bhd
Comparative Statement of Financial Position
For the Year Ended as at December 31, 2020 and 2021

	2020 RM	2021 RM
Assets		
Cash	72,000	146,400
Accounts Receivable	44,000	48,000
Inventory	64,000	44,000
Plant and Equipment	104,000	112,000
Accumulated Depreciation	(52,000)	(48,000)
Land	20,000	20,000
Total Assets	252,000	322,400
Liabilities and Equity		
Accounts payable	32,000	48,000
Wages payable	4,000	2,400
Bonds payable	24,000	16,000
Preferred stock (no par)	4,000	12,000
Common stock	30,000	36,000
Paid-in capital in excess of par	50,000	76,000
Retained earnings	108,000	132,000
Total liabilities and equity	252,000	322,400

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Additional transactions for 2021 follows:

- i) Cash dividends of RM 8,000 was paid.
- ii) Equipment was acquired by issuing common stock with a par value of RM 6,000. The fair market value of the equipment was RM 32,000.
- iii) Equipment with a book value of RM 12,000 was sold for RM 6,000. The original cost of the equipment was RM 24,000. The loss is included in operating expenses.
- iv) Two thousand shares of preferred stock were sold for RM 4.00 per share.

Required

Prepare a statement of cash flows for Duplex Manufacturing Bhd using the indirect method including explanatory foot note if any.

(20 marks)

(Total 25 marks)

(Grand Total 100)

End of Paper.